BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

Opinions of the Courts Below

The opinion of the United States District Court for the District of Delaware is reported in 38 F. Supp. 38. The opinion of the Circuit Court of Appeals for the Third Circuit is reported in 122 F. (2d) 925. Additionally, the opinion of the Circuit Court of Appeals appears at page 27 of the record.

Jurisdiction

The jurisdiction of this Court is invoked under Section 240(a) of the Judicial Code as amended by the Act of February 13, 1925, c. 229 (28 U. S. Code, §347). The decree of the Circuit Court of Appeals for the Third Circuit which petitioner seeks to have reviewed was entered September 11, 1941 (R. 35). Petition for rehearing was denied October 30, 1941 (R. 41).

Statement of the Case

The essential facts of the case for the purposes of this petition for a writ of certiorari are stated in the accompanying petition.

Specification of Errors

The errors which petitioner will urge if the writ of certiorari is issued, are that the Circuit Court of Appeals for the Third Circuit erred:

1. In holding that the mere fact that an executory patent suit is filed later than a petition for declaratory judg-

ment between the same parties and on the same patents makes it an abuse of discretion to refuse to enjoin the executory patent suit.

2. In failing to hold that the granting or denying of such an injunction should depend on all the facts and circumstances of the controversy and of the filing of the several actions whereby it is established whether the patent owner has proceeded in prompt and orderly fashion or whether the infringer has found it necessary to resort to declaratory relief in order to force an adjudication and whereby it is established whether there is greater equity and expedition in granting relief in the executory suit or the declaratory suit.

3. In failing to hold that the District Judge properly exercised his discretion in denying the injunction in the present case.

Summary of the Argument

The points of argument will follow the reasons relied upon for allowance of the writ of certiorari set forth in the foregoing Petition (*ante*, p. 5).

ARGUMENT

I.

The Circuit Court of Appeals has decided an important question of federal law which has not been, but should be, settled by this court.

Apart from its general importance as an absolute rule making the *mere* relative time of filing the test as whether one suit shall be enjoined in favor of another, the rule laid down in this case is important in patent cases because

it tends seriously to disrupt the orderly functioning of the patent system.

For many years, both patent owners and infringers alike, and all those familiar with the patent system, have considered it to be not only fair practice but essential to the proper working of that system that a patent owner give notice of infringement to an infringer before resorting to suit. This is recognized by the notice statute, R. S. §4900, U. S. Code, title 35, §49 (*ante*, p. 4). When such notice is given, an infringer who has unwittingly entered upon the infringement may discontinue infringement or may come to some license arrangement which recognizes the patent. The fact is (although it is not generally appreciated by those unfamiliar with the patent system) that most manufacturers desire to respect patents and do respect them and that it is only the exceptional case that gets beyond negotiation to the stage of litigation. The usual patent controversy follows this course: notice is given; the parties discuss the matter; infringement is discontinued or a license is agreed on. In those few cases where no agreement is possible the patent owner submits the matter to the courts for determination. As we shall point out, a consequence of the present decision of the Third Circuit Court of Appeals will be to disrupt this orderly functioning of the patent system by leading patent owners to discontinue sending notice to infringers and leading them instead to bring suit without warning.

This flows from the fact that, over a period of many years, it has been found to be important that, if the matter is to be litigated, the patent owner be permitted to litigate it in a district where the infringement has been committed. It is usually in this district that the facts are most readily available and that an injunction can be most readily enforced. In recognition of the importance of this procedure, the Judicial Code (Sec. 48, U. S. Code, title 28, Sec. 109, *ante*, p. 2) in 1897, conferred this privilege on patent own-

ers. It is obvious that, in cases where the infringer would like to harass the patent owner, the infringer will attempt to deprive the patent owner of this privilege and prevent suit in the district where the infringer is operating. This is accomplished by hastily filing a petition for declaratory judgment in another district before the patent owner begins a patent suit in the district of infringement. But this is possible only because the patent owner has notified the infringer of his infringement. Otherwise, there would be no controversy and no possibility of declaratory judgment.

If the rule be that a patent owner can preserve his right given by section 48 of the Judicial Code to litigate the matter in the district of his choice by filing suit promptly after notice and failure of negotiations and further, if the question whether he has proceeded in such prompt and orderly fashion as to preserve his right is to be determined on all the facts and circumstances, the patent owner will continue to notify infringers, confident that the mere hasty filing of a declaratory judgment action by the notified infringer will not bar the patent owners' right to proceed in the usual manner. However, if it becomes the law that *mere filing* of a petition for declaratory judgment precludes the patent owner from suing in the district of his choice, patent owners will realize that a race for jurisdiction has been created, and will sue before giving any notice. In doing this, they will not be able to distinguish those infringers who might resort to such harassing tactics, but will have to sue all infringers indiscriminately. Bringing suits without notice will necessarily create an atmosphere of mutual distrust conducive to continuing litigation rather than to orderly settlement. It is thus that the rule laid down by the Third Circuit Court of Appeals tends seriously to disrupt the functioning of the patent system.

An absolute rule such as that laid down by the Third Circuit Court of Appeals is not necessary to the preservation of the salutary purposes of the Declaratory Judgment

Act. When the Declaratory Judgment Act was passed, it was universally welcomed as an effective means whereby an innocent infringer could prevent abuse of the patent system by those patent owners who harassed infringers by threatening suit but refusing to sue. Welcome though that Act is, there has been, unfortunately, a deplorable tendency for some infringers to pervert the salutary purposes of the Act and to use it, as we have said, to harass the patent owner, to delay his recovery and defeat his important privilege of trying the issue in the district where the infringement was committed. Sometimes this is done by hastily filing a petition for declaratory judgment as soon as notice is received, sometimes by a surprise petition filed in the midst of negotiations, and sometimes, as here, by a surprise petition while parties are in the midst of other litigation. In any case the infringer brings the action in a district which the infringer considers beneficial to it, and considers detrimental and harassing and delaying to the patent owner. The Declaratory Judgment Act thus becomes a device for "procedural fencing."*

In the present case respondent was notified of its infringement by petitioner and, negotiations being fruitless, litigation became necessary. Respondent was infringing twenty-two patents but petitioner, believing suit on one invention would be determinative of the controversy and that suit on twenty-two patents would be burdensome to the court and to both parties, sued on two patents which covered one development. This suit was brought under Sec. 48 of the Judicial Code in the district where the infringement was being committed and where respondent had its principal place of business. Respondent had opportunity to bring in the other patents by counter-claim, the others having been included in the notice of infringement,

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**American Automobile Insurance Co.* v. *Freundt,* 103 F. (2d) 613, C. C. A. 7, (1939).

but for over seven months respondent led petitioner to believe that it concurred in the procedure of suing on only one development—respondent joined issue, tried and submitted the case without in any way suggesting that it desired the other patents to be litigated. Suddenly, without notice to petitioner and while the litigation was pending, it filed suit for declaratory judgment in another jurisdiction, namely, the instant suit. Plaintiff thereby learning that respondent desired to contest the other patents, brought separate suits within seventeen days in the district where the first suit was already pending, namely, where the infringement was being committed. Respondent, however, moved to enjoin these suits. This conduct of respondent's, we think, is rightly termed "procedural fencing".

Such procedural fencing is stimulated and encouraged by a decision such as the present one which in effect creates a "race for jurisdiction." It would indeed be unfortunate if this Act, designed to promote stability in judicial determination were to be made available as an instrument of oppression by a rule such as that announced by the Third Circuit Court of Appeals which rule is made absolute when it need not be. Yet, that is the necessary consequence.

There is no need, we think, for departing from the usual rule relating to enjoining one suit in favor of another, namely, that the granting or withholding of the injunction depends on *all* the facts and circumstances. Certainly a rule so at variance with the usual rule and having such consequences should not be adopted except after full consideration by this Court.

II.

There is conflict and confusion in the lower courts in non-patent cases as well as patent cases as to whether they should give preference to a declaratory action where it is the first to be filed or should leave the parties to the usual executory action.

In *U. S. Fidelity & Guaranty Co.* v. *Koch,* 102 F. (2d) 288, C. C. A. 3 (1939), the Court stated in an insurance case that the propriety of dismissing the declaratory judgment action in a case where the executory action was filed subsequently was "a close question. Courts have viewed it differently, * * *. Writers also are not agreed. * * *"

In *American Automobile Insurance Co.* v. *Freundt,* 103 F. (2d) 613, C. C. A. 7 (1939), in an insurance case, the Court affirmed an order dismissing the declaratory judgment action and held,

> "The wholesome purposes of declaratory acts would be aborted by its use as an instrument of procedural fencing either to secure delay or to choose a forum."

In *Acticarbone Corp.* v. *National Carbon Co., Inc.,* Southern District of New York, June 30, 1936 (unreported, see appendix, p. 21), a patent infringement suit was filed subsequent to the filing of a petition for declaratory judgment, and the court held,

> "I have concluded, in the exercise of discretion, to dismiss the petition and its amendments, and require the controversies to be presented in the suit in which respondent is complainant [the subsequent executory suit]."

In *Link-Belt Co.* v. *Dorr Co., Inc.,* 15 F. Supp. 663, District of Delaware (1936), the District Court refused to

enjoin a subsequently filed patent infringement suit on the ground that the declaratory judgment action

> "does not deprive a patent owner of his right to sue in the district of which a defendant is an inhabitant,"

and on the further ground that,

> "entertaining a declaratory judgment suit is within the discretion of the court. In the infringement suit in Illinois complete relief may be afforded by injunction and accounting. No such relief can be afforded in this declaratory judgment suit."

However, in *Silvray Lighting, Inc.* v. *Versen,* 25 F. Supp. 223, Southern District of New York (1938), the Court was asked to dismiss a declaratory judgment action on the ground that it was preferable to try the issues in a patent infringement suit even though later filed. The Court refused to dismiss the declaratory judgment action and held that,

> "Suit for declaratory judgment is of equal dignity to suit for patent infringement."

In *New York Life Insurance Co.* v. *Roe et al,* 102 F. (2d) 28, C. C. A. 8 (1939), the Court, in an insurance case, reversed an order dismissing the declaratory judgment action, but refused to enjoin the prosecution of subsequently filed suits.

In *Milwaukee Gas Specialty Co.* v. *Mercoid Corp.,* 104 F. (2d) 589, C. C. A. 7 (1939), the Court under unusual circumstances held that a declaratory judgment action should proceed and a subsequently filed patent infringement action should be enjoined.

In *Creamery Package Mfg. Co.* v. *Cherry-Burrell Corp.,* 115 F. (2d) 980, C. C. A. 3 (1940), the District Court had dismissed the declaratory judgment action on the ground that it was prematurely filed before the patent owner had

had a fair opportunity to submit the controversy to adjudication and that to permit the declaratory judgment action would be inequitable. The Court of Appeals did not discuss the alleged inequitable conduct, but reversed on the ground that,

> "The defendants are not entitled as of right to an adjudication of the issues by the District Court of Illinois rather than the District Court of Delaware."

In *Aetna Casualty & Surety Co.* v. *Quarles et al*, 92 F. (2d) 321, C. C. A. 4 (1937), the Court in an insurance case dismissed a suit for declaratory judgment leaving the parties to executory actions and holding that the trial court was not obliged to give piece-meal declaration.

Conclusion

It is urged therefore that the petition for writ of certiorari be granted.

Respectfully submitted,

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